

**REPORT OF THE AUDIT OF THE
WASHINGTON COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

April 28, 2003



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EDWARD B. HATCHETT, JR.
AUDITOR OF PUBLIC ACCOUNTS

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable John A. Settles, Washington County Judge/Executive

Honorable Tommy Bartley, Washington County Sheriff

Members of the Washington County Fiscal Court

The enclosed report prepared by Kapp & Company, PLLC, Certified Public Accountants, presents the Washington County Sheriff's Settlement - 2002 Taxes as of April 28, 2003.

We engaged Kapp & Company, PLLC, to perform the financial audit of this statement. We worked closely with the firm during our report review process; Kapp & Company, PLLC, evaluated the Washington County Sheriff's internal controls and compliance with applicable laws and regulations.

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Ed Hatchett".

Edward B. Hatchett, Jr.
Auditor of Public Accounts

Enclosure





Kapp & Company, PLLC

Certified Public Accountants &
Business Advisors

**REPORT OF THE AUDIT OF THE
WASHINGTON COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

April 28, 2003

EXECUTIVE SUMMARY

**AUDIT EXAMINATION OF THE
WASHINGTON COUNTY
SHERIFF'S SETTLEMENT - 2002 TAXES**

April 28, 2003

Kapp & Company, PLLC, has completed the audit of the Sheriff's Settlement - 2002 Taxes for Washington County Sheriff as of April 28, 2003. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

Financial Condition:

The Sheriff collected taxes of \$2,849,818 for the districts for 2002 taxes, retaining commissions of \$98,856 to operate the Sheriff's office. The Sheriff distributed taxes of \$2,749,140 to the districts for 2002 Taxes. Taxes of \$2 are due to the districts from the Sheriff and refunds of \$2 are due to the Sheriff from the taxing districts.

Report Comments:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits As Well As Provide A Written Agreement
- Lacks Adequate Segregation Of Duties

Deposits:

The Sheriff deposits were uninsured and uncollateralized by bank securities or bonds in the amount of \$1,699,918.

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Kapp & Company, PLLC
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Independent Auditor's Report

We have audited the Washington County Sheriff's Settlement - 2002 Taxes as of April 28, 2003. This tax settlement is the responsibility of the Washington County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Washington County Sheriff's taxes charged, credited, and paid as of April 28, 2003, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated September 24, 2003 on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grants. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

To the People of Kentucky

Honorable Paul E. Patton, Governor

Gordon C. Duke, Secretary

Finance and Administration Cabinet

Dana Mayton, Secretary, Revenue Cabinet

Honorable John A. Settles, Washington County Judge/Executive

Honorable Tommy Bartley, Washington County Sheriff

Members of the Washington County Fiscal Court

Based on the results of our audit, we have presented the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits As Well As Provide A Written Agreement
- Lacks Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in dark ink that reads "Kapp & Company, PLLC". The script is cursive and fluid.

Kapp & Company, PLLC

Audit fieldwork completed -
September 24, 2003

WASHINGTON COUNTY
TOMMY BARTLEY, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES

April 28, 2003

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 232,133	\$ 352,179	\$ 1,349,690	\$ 447,686
Tangible Personal Property	21,979	40,681	124,676	160,527
Intangible Personal Property				64,025
Fire Protection	884			
Increases Through Exonerations	3,310	6,249	19,244	24,049
Franchise Corporation	16,105	30,058	93,618	
Additional Billings	289	442	1,672	577
Limestone, Sand, and Mineral Reserves	15	23	88	29
Penalties	1,394	2,118	8,080	2,777
Adjusted to Sheriff's Receipt	263	703	2,372	357
Gross Chargeable to Sheriff	<u>\$ 276,372</u>	<u>\$ 432,453</u>	<u>\$ 1,599,440</u>	<u>\$ 700,027</u>
<u>Credits</u>				
Exonerations	\$ 4,274	\$ 7,890	\$ 24,844	\$ 28,785
Discounts	3,489	5,391	20,220	9,517
Delinquents:				
Real Estate	3,955	5,994	22,970	7,807
Uncollected Franchise	1,545	2,828	8,965	
Total Credits	<u>\$ 13,263</u>	<u>\$ 22,103</u>	<u>\$ 76,999</u>	<u>\$ 46,109</u>
Taxes Collected	\$ 263,109	\$ 410,350	\$ 1,522,441	\$ 653,918
Less: Commissions *	<u>11,470</u>	<u>17,440</u>	<u>41,867</u>	<u>28,079</u>
Taxes Due	\$ 251,639	\$ 392,910	\$ 1,480,574	\$ 625,839
Taxes Paid	251,463	392,641	1,479,549	625,487
Refunds (Current and Prior Year)	<u>177</u>	<u>270</u>	<u>1,023</u>	<u>352</u>
Due Districts or (Refunds Due Sheriff)		**		
as of Completion of Fieldwork	<u>\$ (1)</u>	<u>\$ (1)</u>	<u>\$ 2</u>	<u>\$ 0</u>

The accompanying notes are an integral part of this financial statement.

WASHINGTON COUNTY
TOMMY BARTLEY, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2002 TAXES
April 28, 2003
(Continued)

* Commissions:

10% on \$ 10,000
4.25% on \$ 1,317,377
2.75% on \$ 1,522,441

** Special Taxing Districts:

Library District \$ (1)

Due Districts or (Refunds Due Sheriff) \$ (1)

WASHINGTON COUNTY
NOTES TO FINANCIAL STATEMENTS

April 28, 2003

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. As of November 12, 2002, the collateral and FDIC insurance together did not equal or exceed the amount on deposit, leaving \$1,699,918 of public funds uninsured and unsecured. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral.

WASHINGTON COUNTY
 NOTES TO THE FINANCIAL STATEMENT
 April 28, 2003
 (Continued)

Note 2. Deposits (Continued)

	<u>Bank Balance</u>
FDIC insured	\$ 100,000
Collateralized with securities held by the county official's agent in the county official's name	
Collateralized with securities held by pledging depository institution in the county official's name	210,000
Uncollateralized and uninsured	<u>1,699,918</u>
Total	<u><u>\$ 2,009,918</u></u>

Note 3. Tax Collection Period

Property Taxes

The real and personal property tax assessments were levied as of January 1, 2002. Property taxes were billed to finance governmental services for the year ended June 30, 2003. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 20, 2002 through April 28, 2003.

Note 4. Interest Income

The Washington County Sheriff earned \$746 as interest income on 2002 taxes. The Sheriff distributed the appropriate amount to the school district as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Washington County Sheriff collected \$10,884 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Washington County Sheriff collected \$90 of advertising costs and \$1,271 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The Sheriff distributed the advertising costs to the county as required by statute, and the advertising fees will be used to operate the Sheriff's office.

COMMENTS AND RECOMMENDATIONS

WASHINGTON COUNTY
TOMMY BARTLEY, COUNTY SHERIFF
COMMENTS AND RECOMMENDATIONS

As of April 28, 2003

STATE LAWS AND REGULATIONS

The Sheriff Should Require Depository Institutions To Pledge Or Provide Sufficient Collateral To Protect Deposits As Well As Provide A Written Agreement

On November 12, 2003, \$1,699,918 of the Sheriff's deposits of public funds in depository institutions were uninsured and unsecured. According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with Federal Deposit Insurance Corporation insurance, equals or exceeds the amount of public funds on deposit at all times. In addition, the Sheriff did not have a written agreement with the depository institution securing the Sheriff's interest in the collateral. We recommend that the Sheriff require the depository institution to pledge or provide collateral in an amount sufficient to secure deposits of public funds at all times as well as provide a written agreement securing the Sheriff's interest in the collateral.

County Sheriff's Response:

The agreement with the bank states the amount to be pledged. The agreement was signed by the bank President and included in the Board Meeting Minutes. The audit revealed the bank did not secure the collateral agreed to in the Collateral Securities Agreement. The bank failed to pledge what was agreed.

INTERNAL CONTROL - REPORTABLE CONDITION:

Lacks Adequate Segregation Of Duties

During our review of internal control, we found that the office has a lack of segregation of duties. Due to the entity's diversity of official operations, small size and budget restrictions, the official has limited options for establishing an adequate segregation of duties. However, the lack of segregation of duties is hereby noted as a reportable condition pursuant to professional auditing standards. We believe this reportable condition as described above is a material weakness. We recommend that the following compensating controls be implemented to offset this internal control weakness:

- The Sheriff should periodically agree daily tax collections totals to receipts ledger and deposit slip.
- The Sheriff should periodically compare the bank reconciliation to the balance in the checkbook. Any differences should be reconciled.
- The Sheriff should agree monthly tax reports to receipts ledger and disbursements ledger.

These reviews should be indicated with the Sheriff's initials.

County Sheriff's Response:

No response given.

PRIOR YEAR:

The comment pertaining to providing a pledge or sufficient collateral to protect deposits was also reported in the prior year audit report.

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REPORT ON COMPLIANCE
AND ON INTERNAL CONTROL OVER FINANCIAL
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS



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Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Washington County Sheriff's Settlement - 2002 Taxes as of April 28, 2003, and have issued our report thereon dated September 24, 2003. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Washington County Sheriff's Settlement - 2002 Taxes as of April 28, 2003 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grants, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed an instance of noncompliance that is required to be reported under Government Auditing Standards and which is described in the accompanying comment and recommendation.

- The Sheriff Should Require Depository Institution To Pledge Or Provide Sufficient Collateral To Protect Deposits As Well As Provide A Written Agreement

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Washington County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition.

Report On Compliance And On Internal Control
Over Financial Reporting Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Internal Control Over Financial Reporting (Continued)

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statement. A reportable condition is described in the accompanying comment and recommendation.

- Lacks Adequate Segregation Of Duties

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above is a material weakness.

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party.

Respectfully submitted,

A handwritten signature in dark ink that reads "Kapp & Company, PLLC". The script is cursive and fluid.

Kapp & Company, PLLC

Audit fieldwork completed -
September 24, 2003

